



JUL 24 1986

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

The evidence submitted disclosed that you are an unincorporated association in the State of [REDACTED]. Your constitution and bylaws were adopted on [REDACTED].

Section III, the objectives of the Club are:

- A. The stimulation, fostering and furthering of an interest in the obedience training of dogs.
- B. The encouragement, support, promotion and conduction of obedience tests, and other
- C. The conduction of classes in obedience training by Club approved methods that will best prepare dog and handler to earn American Kennel Club titles and more importantly to become good companions.
- D. The advancement of the best interests of the dog, handler and dog fancy.
- E. The fostering and maintaining among the members of the Club a warm friendship and the highest sportsmanship.
- F. The acquiring, holding and dispersing of such real and personal property as may be desirable or necessary in the conduct of the business of the Club; and to do all other things necessary and incidental to the carrying out of the purposes herein set forth.

The organization's income is derived from dues, obedience classes and dog shows. You show gross from [REDACTED] thru [REDACTED] is as follows:

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname		[REDACTED]					

\$		obedience classes	%
		dog show entries	%
		dues	%
\$		interest/sales	%

Section 501(c)(7) of the Internal Revenue Code provides exemption for:

"Clubs organized for pleasure, recreation and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earning of which inures to the benefit of any private shareholder."

"(a) The exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities."

"(b) A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products is not organized and operated exclusively for pleasure, recreation and other nonprofitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation or social purposes. However, an incidental sale of property will not deprive a club of its exemption."

Public Law 94-568, Senate Report Number 94-1318, 2d Session, 1979 C.B. 596, sets forth percentage guidelines concerning the permissible amount of gross receipts which a social club may derive from nonmember activity. These percentages supercede those provided in Revenue Procedure 71-17, 1971-1 C.B. 683. Social clubs are now permitted to receive up to 35 percent of their gross receipts, including investment income from sources outside of their membership without losing their tax exempt status. Of this 35 percent, not more than 15 percent may be derived from the use of a social club's facilities or services by the general public. Even though gross receipts from the general public exceed this standard, it does not necessarily establish that there is a nonexempt purpose. A conclusion that there is a nonexempt purpose will be based on all the facts and circumstances including, but not limited to, the gross receipts factor.

[REDACTED]

Revenue Ruling 68-638, 1968-2 C.B. 200 denied 501(c)(7) status to a country club which annually hosts a golf tournament to which the general public is admitted for a charge. During the tournaments, the club derives substantial receipts from admission fees, broadcasting rights, parking fees, and food and beverage concessions. The net income from the tournaments is used for capital improvements and club operating expenses. The club was held to be engaging in business with the general public.

On the basis of the information submitted it appears you are not organized exclusively for pleasure, recreation or other similar nonprofitable purposes for your members. You advertise your obedience classes to the public and you have dog shows for the public, all of which earns funds for the Club; therefore you are soliciting public patronage and are not operating exclusively for recreational purposes for your members. You state in Schedule D, question 3(a) "that the classes are given for the specific purposes of public participation. The classes teach obedience training techniques as well as give hints on good dog care. In addition, the classes are designed for dog and handler participation."

We conclude you are not exempt from Federal income tax under section 501(c)(7). You are required to file Form 1120, Federal Income Tax Return.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

Sincerely,

[REDACTED]
District Director

Enclosure:
Publication 892
Form 6038
Envelope